

**RESPONSE OF THE RETAIL ENERGY SUPPLY ASSOCIATION TO
THE ILLINOIS ENERGY SOLUTIONS FORUM'S
INITIAL DISCUSSION QUESTIONS**

The Retail Energy Supply Association (“RESA”) is a non-profit trade association of independent corporations that are involved in the competitive supply of electricity and natural gas.¹ RESA and its members are actively involved in the development of retail and wholesale competition in electricity and natural gas markets throughout the United States. Several members of RESA have, or soon will be requesting, certificates from this Commission under Section 16-115 of the Public Utilities Act to provide electric service as Alternative Retail Electric Suppliers.

RESA welcomes the opportunity to respond to the initial discussion questions provided by the Illinois Commerce Commission. Many of the issues raised by the questions address areas that are tangential to the retail supply of energy. Accordingly, RESA does not provide specific responses to all of the questions. Overall, however, RESA believes it is imperative that stakeholders recognize that a primary component of Illinois’ competitive energy market structure must be to rely on the energy markets as a basis for supply for any utility service. RESA believes that only through correct energy pricing will customers receive the price signals that are crucial to forming rational consumption and conservation patterns. RESA provides this Response as a general position regarding how the market must be structured in order to achieve the best balance

¹ RESA’s members include Consolidated Edison Solutions, Inc; Direct Energy Services, LLC; Hess Corporation; Reliant Energy Solutions; Select Energy, Inc.; Sempra Energy Solutions; Strategic Energy, LLC; SUEZ Energy Resources NA, Inc. and US Energy Savings Corp. The opinions expressed in this filing may not represent the views of all members of RESA.

between maintaining reliable and rational markets and providing customers with the lowest priced energy service that is consistent with their needs and desires.

RESA submits that retail energy competition is the best way to help all consumers cope with rising energy prices. Successful retail competition should produce downward pressure on price, increase conservation incentives, enhance customer service, improve environmental management and hasten the introduction of new, innovative products. Retail energy competition requires that default service pricing be properly structured; customers must see a default price that reflects the market, otherwise consumers cannot make informed and thoughtful decisions.

As the Chairman's questions noted, a February, 2006, U.S. Department of Energy report concluded that closely aligning the retail price of electricity with its cost of production as it varies over time" will enable customers to "assign a value to their consumption of electricity and make a better determination of when to use it." Illinois' residential and small and medium sized businesses need a default service rate providing better price signals to spur more thoughtful efficiency investments and wise energy usage. The method of procuring power in Illinois post-2006 based on long-term contracts will remove the impact of changes in market price driven by supply and demand. Such price distortions will contribute to a lack of demand side reductions. During times where utility energy supply prices are greater than market prices customers will simply overpay whereas when utility prices are less than market prices, customers will receive the price signal that energy is less expensive than it really is, and will not take appropriate demand side measures to reduce their consumption. The market is always the relevant measure for energy prices so it makes sense to price energy accordingly. Without real price

signals, consumers need not concern themselves with managing their energy usage. They will not need to make decisions to reduce their energy usage and, therefore, are less likely to appreciate the environmental impact of their decisions. In order to promote demand side response effectively, consumers need real price signals. Significant benefits from increased demand side response include mitigation of generation market power, reduced demand on electricity infrastructure, and decreased need for new power plants.

The Community Energy Cooperative (“Cooperative”) at the Center for Neighborhood Technology has developed and operated real-time pricing programs with the goal of providing residential consumers exactly the kind of “right price signals” to help them “to better monitor, manage and control their electricity consumption and thus their energy bills.” The Cooperative’s program provides customers with the opportunity to make informed decisions about electricity use by having electricity prices accurately reflect the market cost of electricity. This program uses hourly market based energy pricing information provided through the utility to develop prices for participants and interval meters funded through the Illinois Department of Commerce and Economic Opportunity to record the hourly energy use. According to the Cooperative’s statistics, customers in the program have seen overall electricity demand reduced by up to 20% with small changes in behavior with a savings of approximately 15% for the first two years of the program. The Commission should apply this important experience in reforming the procurement process for the state’s electric utilities.

RESA would strongly support and be an active participant in a Commission sponsored workshop process to help develop how consumer educational material should be designed and distributed. RESA submits that consumer education is a necessary and

important element in the success of any deregulated market. The Commission's Staff is appropriately tasked with this objective. The costs for this program should be borne by all ratepayers or taxpayers as it is a social cost incurred for the public good.

It is important that education requirements and rules are executed in a neutral and unbiased manner- providing consumers with a clear, balanced understanding of the ways to reduce demand and the choices available for supply. Customer education materials should be developed with stakeholder input and the program should endure until consumers become aware of how to manage their consumption and select from competitive supply offerings.

Respectfully submitted,
Retail Energy Supply Association

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